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STATE FOR EB, NEA/ARP  
TREASURY FOR U/S QUARLES AND KRAMANATHAN

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [PREL](#) [BA](#)  
SUBJECT: TREASURY UNDER SECRETARY QUARLES' MEETINGS WITH  
FINANCE MINISTER

Classified By: Ambassador William T. Monroe, reasons 1.4 (b) and (d).

¶1. (C) Summary. Treasury Under Secretary for Domestic Finance Randal Quarles and Financial Economist Karthik Ramanathan met March 17 with Minister of Finance Shaikh Ahmed bin Mohammed Al Khalifa. Shaikh Ahmed said new investment opportunities in Bahrain were attracting increasing local investment, adding that Islamic Banking was a key component of Bahrain's economic diversification. He said Bahrain's political decision to support the dollar was firm, adding that Bahrain had seen no ripple effect from the Dubai Ports controversy. Shaikh Ahmed also said Indian companies were currently looking at investment with and in Bahrain. End Summary.

¶2. (C) Under Secretary Quarles, accompanied by the Ambassador, Treasury Economist Karthik Ramanathan, and Econoff, called on Minister of Finance Shaikh Ahmed March 17. Shaikh Ahmed noted that investment dollars in Bahrain were increasingly being drawn to "tremendous" local opportunities and added that real estate and telecommunications in particular are currently acting as magnets for new investment.

¶3. (C) Shaikh Ahmed observed that rising standard of living expectations were contributing to recent local development. "I remember when people used to be content to travel abroad and enjoy the lifestyle of the U.S. and Europe and were content with that for two months out of the year. Now they want it for twelve months out of the year," he said.

¶4. (C) He added that Bahrain had recently taken steps to address its unemployment problem. "In a way, this helps combat terrorism." He said developing investment, medical, and education sectors would position Bahrain favorably throughout the GCC. "Bahrain has no bubble," he asserted.

¶5. (C) Shaikh Ahmed said economic diversification was a key principle of Bahrain's economic strategy and that Islamic banking was an important part of that diversification. He applauded U.S. regulatory receptivity to Islamic banking, in comparison to the EU's banking system, which he said was not as accommodating. He asked about broader licensing of Islamic funds in the U.S. He said there would be investors in the region, after looking at experiences in the U.K., looking for new areas to invest. "I don't think people look except where opportunity is."

¶6. (C) On Bahrain's asset positions he said, "Generally we invest around the world, but we still support the dollar - we've taken that political position." Asked about any effect the Dubai Ports World controversy might have, Shaikh Ahmed replied, "That's for them to comment on. We haven't felt a

ripple-effect. Nothing has happened to change our position, that's very clear. We are doing some hedging, but historically more than ninety percent of our position has been in U.S. currency." Shaikh Ahmed said a further devaluation of the U.S. dollar would have no impact on Bahrain's holdings. "It's not a strategic decision - it's a political decision."

¶7. (C) Shaikh Ahmed said Indian companies were currently looking at investment with and in Bahrain. He noted that the strong growth rates of the Indian and Chinese economies represented new opportunities, adding that "India's profit margins are higher."

¶8. (U) This cable has been cleared by Treasury Under Secretary Quarles.

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